

## Food & Marketing



## Food Price Inflation Should Moderate in 2002

Consumers' demand for beef, dairy products, and fresh fruits and vegetables contributed to a larger increase in 2001 food prices than forecast earlier this year. The Consumer Price Index (CPI) for all food is forecast up 3.2 percent in 2001, following smaller increases of 2.1 percent in 1999 and 2.3 percent in 2000. The food CPI is expected to moderate in 2002, rising 2.5 to 3.0 percent. For the all-items CPI in 2001, the inflation rate is forecast at 3 percent, the same as in 2000.

The CPI, which measures changes in prices only, increased 2.5 percent for full-service meals and snacks (restaurants) in 2000, while the CPI for limited-service meals and snacks (fast-food establishments) increased 2.7 percent. In 2001, the increases have been higher, with restaurants increasing 3.1 percent and fast-food establishments increasing 2.9 percent. Restaurants and fast-food establishments competed vigorously with food-at-home sales and take-home meals offered by supermarkets. The three main sources of takeout food are fast-food establishments (33 percent), restaurants (23 percent), and supermarkets (20 percent).

Total sales of food purchased by consumers increased 7.4 percent in 2000,

with food-at-home sales increasing 8.5 percent and food-away-from-home sales (restaurants and fast-food establishments) increasing 6.2 percent. These increases were the largest since 1990, indicating greater consumer purchases of luxury or convenience food items and willingness to pay higher retail prices for Choice beef, dairy products, and fresh fruits and vegetables. With an unsettled economy in 2001 and perhaps 2002, food sales are expected to return to the trend of 3- to 5-percent annual increases.

Total food expenditures (sales plus home production, donations, and supplied foods) are forecast to increase 3.4 percent to 887 billion dollars in 2001. Food price changes are key in determining the proportion of income consumers spend for food. In 2000, 10.7 percent of household disposable personal income went to food expenditures, with consumers expected to spend a smaller share of their income, 10.5-10.6 percent, in 2001 and 2002. While the proportion of household disposable personal income spent on food generally trends downward, it rose in 2000 because disposable personal income grew at a slower rate (5.3 percent) than food sales (7.4 percent).

**Beef and veal.** Weather-reduced beef supplies this past winter and spring resulted in sharply higher fed-cattle prices and record retail beef prices, as competition for the reduced supply of beef increased. During the first half of 2001, beef production was down 5 percent as both marketings and slaughter weights declined. During the second half of 2001, drought conditions throughout much of the southern Great Plains and Pacific Northwest have resulted in large numbers of cattle being pushed into feedlots, with fewer heifers being retained for breeding than expected. Beef cow slaughter has risen sharply over the past couple of months and will increase further if rains don't begin soon enough to generate pasture for fall and winter grazing. Any additional increase in beef cow slaughter in 2001 will produce even sharper declines in beef production in the future.

Larger supplies of fed beef and seasonally large pork supplies will likely mean declining retail beef prices through late fall. However, with record retail prices during the summer, the beef CPI for 2001 is expected to be up 8.4 percent. A further increase of 2 to 3 percent is projected for 2002, as supplies drop sharply in the second half of the year. The smaller supplies could lower consumption in 2002 to 65.0 pounds per capita. The smaller beef supplies and the rise in U.S. beef prices will make the U.S. beef market more attractive to imports.

**Pork.** Pork production is forecast down 1 percent in 2001, and increasing exports and declining imports will drop available supplies for domestic consumption even further. Pork products from Canada and Denmark that typically would have been destined for the U.S. were instead exported to Japan because of strong demand there. U.S. imports are expected to decline to 915 million pounds this year, then increase to 960 million pounds in 2002. U.S. pork exports in the first half of 2001 ran 33 percent ahead of last year, primarily due to very large shipments of fresh and frozen pork cuts to Japan.

Retail demand continues strong for pork, and with continued positive returns for hog producers in 2001, commercial pork production is expected to increase to 19.6 billion pounds in 2002. Per capita con-

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sumption is expected to decline to 51 pounds per person in 2001 and increase to 53.1 pounds in 2002. Record 2001 retail beef prices have made pork more attractive to consumers, with retail pork prices expected to increase 3.5 percent in 2001. Although pork production is forecast up in 2002, competing beef supplies are expected to be lower, which will help support pork demand. The CPI for pork is expected to increase 1 to 2 percent in 2002.

**Poultry.** The CPI for poultry is forecast to increase 2.5 percent in 2001, with an increase of 2 to 3 percent expected in 2002. Competing supplies of red meat are influencing overall meat prices in 2001, as broiler production is expected to increase only about 1 percent this year. Broiler meat production for 2001 could equal 30.9 billion pounds, and is expected to increase 2 percent in 2002. Turkey production will likely total 5.5 billion pounds in 2001 and is forecast to increase to 5.7 billion pounds in 2002. Broiler exports were strong through the first half of 2001, with increases in exports to the two largest markets (Russia and Hong Kong/China) plus increases in Central and Eastern Europe and Asian countries such as Korea and Taiwan. The discovery of Avian influenza in Chinese shipments of poultry products to Korea boosted broiler exports from the U.S., Brazil, and Thailand. In 2001, U.S. turkey exports have increased to Eastern Europe and Asia, but shipments to Mexico, the largest market, are expected down 16 percent.

**Fish and seafood.** The CPI for fish and seafood is forecast up 0.5 percent in 2001, with an expected 1 to 2 percent increase in 2002. A strong domestic economy boosted sales in the restaurant and food service sectors in 2000 and thus far in 2001, although seafood is facing strong competition from beef in restaurants. Higher away-from-home sales especially benefit seafood marketers, as a large percentage of total seafood sales are in this sector. More than 50 percent of the fish and seafood consumed in the U.S. is imported, with another 20 to 25 percent from U.S. farm-raised production.

**Eggs.** Retail egg prices could increase 4.6 percent in 2001, with the CPI index expected to increase 2 to 3 percent in 2002. Egg production is expected to

## Changes in Food Price Indexes and Expenditures, 2000 through 2002

Item	Relative weights*	2000	Expected 2001	Forecast 2002
<b>Consumer price indexes</b>		<b>Percent</b>		
All items		3.4	3.0	2 to 3
All food	100.0	2.3	3.2	2.5 to 3
Food away from home	37.2	2.4	2.9	2.5 to 3
Food at home	62.8	2.3	3.4	2.5 to 3
Meats	10.8	5.9	5.7	2 to 3
Beef and veal	5.0	6.4	8.4	2 to 3
Pork	3.7	7.3	3.5	1 to 2
Other meats	2.2	2.6	2.5	2 to 3
Poultry	3.1	1.2	2.5	2 to 3
Fish and seafood	2.2	2.8	0.5	1 to 2
Eggs	0.8	3.0	4.6	2 to 3
Dairy products	6.9	0.7	4.5	2 to 3
Fats and oils	1.9	-0.6	4.7	2 to 3
Fruits and vegetables	9.6	0.7	3.4	2 to 3
Fresh fruits and vegetables	7.5	0.7	3.6	2 to 3
Fresh fruits	3.8	-3.0	2.8	2 to 3
Fresh vegetables	3.7	4.8	5.0	2 to 3
Processed fruits and vegetables	2.1	1.1	2.9	3 to 4
Sugar and sweets	2.4	1.1	1.1	1.5 to 2.5
Cereals and bakery products	10.0	1.8	3.0	2 to 3
Nonalcoholic beverages	6.7	2.6	1.1	1 to 2
Other foods	8.4	2.0	2.1	2 to 3
<b>Food expenditures</b>		<b>\$ billion</b>		
All food		857.8	887.0	914.0
Food at home		449.5	464.0	478.0
Food away from home		408.3	422.0	435.0

\*Bureau of Labor Statistics estimated weights as share of all food, December 2000.

Sources: Historical data, Bureau of Labor Statistics; forecasts, Economic Research Service.

Economic Research Service, USDA

increase 1.6 percent in 2001 and 1.7 percent in 2002. Wholesale, farm, and retail prices have all increased in 2001, partly due to increased costs resulting from adoption of guidelines from the fast-food industry regarding larger space recommendations in poultry houses and elimination of forced moulting. U.S. per capita consumption is expected to be slightly above 260 eggs in 2001 and 263 eggs in 2002.

**Dairy products.** Demand for dairy products remains brisk and will probably remain strong for the rest of 2001, especially for gourmet ice cream, cheese, and other butterfat products. With milk production expected to decline about 1 percent in 2001, the CPI for dairy products is forecast up 4.5 percent. When the upward trend in milk per cow resumes, milk output could increase almost 3 percent in 2002, slowing the rate of price acceleration and leading to a 2 to 3 percent increase in the dairy products CPI in 2002.

**Fats and oils.** The CPI for fats and oils is forecast up 4.7 percent in 2001, largely

due to higher retail prices for butter, which accounts for 31 percent of the fats and oils index. The index is expected to increase 2 to 3 percent in 2002. The remaining items contained in the index are highly processed food items, with their price changes primarily influenced by the general inflation rate and global supplies of vegetable oils.

**Fresh fruits.** Higher retail prices for grapefruit, lemons, bananas, peaches, strawberries, and Thompson seedless grapes have boosted retail prices for fresh fruit in 2001. Higher retail prices are also expected for apples and pears during the fall of this year, leading to an expected CPI increase of 2.8 percent for 2001. With continued U.S. consumer demand for fresh fruits and a return to normal production levels for major fruits in the U.S., the fresh fruit CPI is forecast to increase 2 to 3 percent in 2002. U.S. production of citrus, apples, pears, grapes, apricots, California plums, strawberries, blueberries, and cranberries are all expected down in 2001 from a year ago. The decreases

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range from 10 percent for apples to 1 percent for cranberries. Higher prices for fresh fruit will encourage imports and discourage exports.

The major fresh fruits consumed continue to be bananas (18 percent), apples (17 percent), citrus fruits (23 percent), and other fresh fruits (42 percent) including grapes, peaches, pears, and strawberries. Imports provide most of the tropical fruit supplies in the U.S., with bananas, mangoes, pineapples, and papayas the most popular. Demand for fresh tropical fruit in the U.S. has been on the rise, a trend influenced by the nation's growing immigrant population. Bananas are the most important tropical fruit imported, accounting for over 85 percent of the total import volume.

**Fresh vegetables.** In 2001, the CPI for fresh vegetables is expected to increase 5 percent, with the increase for 2002 projected to be 2 to 3 percent. Adverse weather reduced vegetable growth and marketable supplies during the first half of 2001. Summer fresh-market production is forecast to rise 2 percent in 2001, with increased area planted for 10 of the 15 major crops. Snap beans (up 9 percent), cabbage and sweet corn (both up 6 percent), and watermelon and cauliflower (both up 5 percent) gained the most. Planted areas were down for carrots (16 percent), honeydew melons (4 percent), and tomatoes (2 percent). The outlook for the remainder of 2001 will depend largely on fall acreage and weather. Given the strong producer prices of last fall, fresh vegetable and melon acreage for fall harvest is likely to rise.

California, accounting for about half of the summer vegetable area, is expected to harvest 2 percent less area in 2001 due to adverse effects of cool temperatures early in the growing season (including frost and

hail damage in April) and then very hot temperatures in May. This decline is primarily in carrot and tomato acres. In Florida, several freezes at the start of the year reduced supplies and slowed growth. In contrast, New York, the second leading summer-season producer with 13 percent of total acreage, has had favorable weather and is expected to harvest 11 percent more area than a year ago.

**Processed fruits and vegetables.** The combined supply of the five major processing vegetables (tomatoes, sweet corn, snap beans, green peas, and cucumbers) is expected to be down 10 percent in 2001 due to fewer contracted acres combined with hot, dry weather in the upper Midwest that lowered yields. Fruit supplies for processing are also expected to be smaller in 2001. With reduced supplies of both fruits and vegetables, the CPI for processed fruits and vegetables is expected to increase 2.9 percent in 2001 and an additional 3 to 4 percent in 2002.

**Sugar and sweets.** Domestic sugar production for 2000/01 is expected to total nearly 8.5 million tons, with cane sugar estimated at 4.3 million tons and beet sugar at nearly 4.2 million tons. While lower prices for soybeans, corn, wheat, barley, and rice have encouraged increased beet production in the past, the recent closure of several sugarbeet processing plants led to a 13-percent reduction in acres planted in 2001. Although the demand for sugar and sugar-related products has continued to increase, lower retail prices for selected sugar-related food items is expected to keep the increase in the 2001 CPI index for sugar and sweets to only 1.1 percent. The CPI is projected to increase a moderate 1.5 to 2.5 percent in 2002.

**Cereal and bakery products** account for a large portion of the food-at-home CPI—almost 16 percent. Breakfast cereals and bread are the two largest components, each accounting for about 20 percent of the cereal and bakery products index.

With grain prices lower in the earlier part of this year and inflation-related processing costs remaining at modest levels, the CPI for cereals and bakery products is expected to increase only 3 percent in 2001. With consumer demand for bakery products expected to remain fairly strong, the CPI is forecast to increase 2 to 3 percent in 2002.

**Nonalcoholic beverages.** The CPI for nonalcoholic beverages will increase an expected 1.1 percent in 2001 and is forecast to increase another 1 to 2 percent in 2002. Carbonated drinks, nonfrozen noncarbonated juices and drinks, and coffee are the three major components of this category, accounting for 39, 30, and 13 percent of the index. Retail prices are higher in 2001 for carbonated drinks (up 2 percent) and nonfrozen noncarbonated juices and drinks (up 1 percent), but significantly lower for coffee, which is down almost 4 percent. Near-record production in Brazil contributed to lower consumer prices for coffee in 2001.

**Other foods.** The CPI for other foods is expected to increase 2.1 percent in 2001 and 2 to 3 percent in 2002. Price trends for other foods—which include soups, frozen and freeze-dried prepared foods, pizzas, snacks, spices, seasonings, sauces, and baby foods—are largely affected by changes in the all-items CPI. Competition among these products should continue to dampen retail price increases. **AO**

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